



Japanese Economy Monthly Forecast

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Headlines

●Review of data released in March

▶ Taking into account the latest official data released on March 29th, we estimated the Q1 GDP.

▶ The **Index of Industrial production (IIP)** in February increased +1.4% MoM, registering a positive movement for the first time in four months. However, the increase was not enough to compensate for the slump in January. The January-February average was -3.2% lower than the Q4 average, reflecting a lackluster production.

▶ Among the components of IIP, the Consumer Goods Production Index rose +1.9% MoM, increasing for the second month in a row. As a result, the January-February average was +1.2% higher than the Q4 average. On the other hand, although the Broad-ranging Personal Services Index grew +1.0% MoM in January, increasing for the first time in three months, it was the same as the Q4 average. Consequently, the overall recovery in private final consumption expenditure in Q1 might be modest.

▶ The number of **new housing starts** in February grew an impressive +10.9% MoM, expanding for the first time in two months. However, since January saw a major decline, the January-February average was -3.8% lower compared to the Q4 average.

▶ The February data updates led to an upward revision in our Q1 forecasts for **real private housing, real private capital investment** and **government investment**. In contrast, we revised downwards our forecast for **changes in private inventories**.

▶ Comparing the January-February average with the Q4 average, **real exports** and **real imports** contracted -2.7% and -3.4%, respectively. Since the latter shrank at a higher rate than the former, **real net exports** are estimated to have increased somewhat.

●2019Q1 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's forecast for Q1 **real GDP growth** based on the Current Quarter Model (expenditure side) is an annualized -1.4% QoQ. Although the figure was revised upwards for the second week in a row, it is still in negative territory (Figure 1).

▶ The **production-side** forecast figure based on the principal component analysis model is an annualized +0.2%. The average of the production-side and the expenditure-side forecasts is an annualized -0.6%.

●2019Q1 inflation forecast update

▶ February was the 26th consecutive month of YoY increase in the **National Core Consumer Price Index** (+0.7%). The rate decelerated by 0.1%pt from the previous month. The seasonally adjusted figure was +0.1% MoM, marking the second consecutive month in positive territory.

▶ According to this week's Current Quarter Model (CQM), the private final consumption expenditure deflator and the domestic demand deflator in Q1 are both estimated to have declined by -0.1% QoQ. Due to the improving terms of trade, we forecast a GDP deflator increase of +0.6% QoQ in Q1 (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jan-Mar (Q1) 2019 (% , QoQ annualized growth)

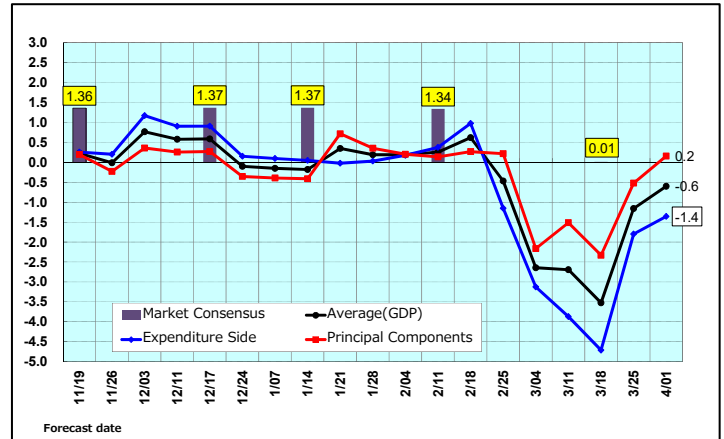
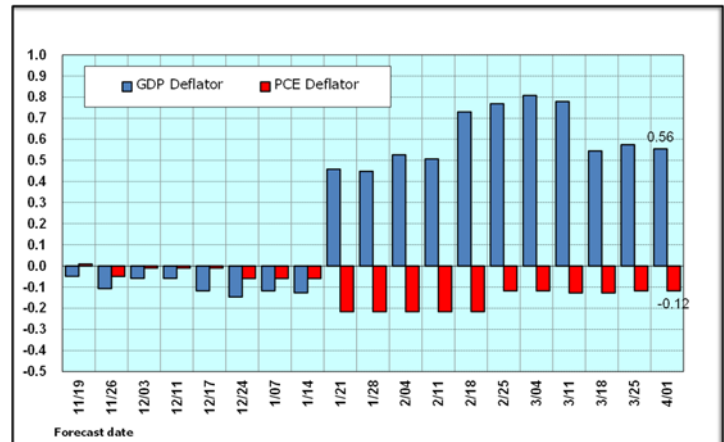


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2019 (% , QoQ growth)



We applied the Current Quarter Model (CQM) methodology developed by Professor Emeritus L. R. Klein to create two forecasting models for the Japanese economy: a demand-side model and a production-side (principal component analysis) model. We refer to the forecasts by the former model as the main series, and those by the latter model, as well as the average of both models, as the reference series. Forecasts made using the CQM model are renewed continuously, incorporating the latest weekly data, which makes it possible to determine and trace the impacts of the latest short-term trends on macroeconomic conditions.

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
3/29	February	Labor Force Survey				
		Total employment (millions)	67.14	+0.49		
		Total unemployment (millions)	1.60	-0.12		
			Unemployment rate (%)	2.3%	-0.2%pts	
	February	General Job Placement Situation				
			Job offers-to-applicants ratio	1.63	0.00%pts	
	February	Indices of Industrial Production (preliminary figures, 2015=100)				
			Production	102.5	+1.4%	
			Shipments	101.6	+1.8%	
			Inventory	102.2	+0.5%	
	February	Current Survey of Commerce (preliminary figures)				
			Retail trade (billion JPY)	11,240.0	+0.2%	+0.4%
	February	New Housing Starts				
			New housing starts (SA, Unit)	71,966	+10.9%	+4.2%
		Planned dwelling construction cost (billion JPY)	1,189.4	+4.2%	+6.1%	
March	Tokyo Region Consumer Price Index (2015=100)					
		Core	101.3	-0.1%	+1.1%	
January	Construction Costs Deflator (2011=100)					
		Housing construction	110.2		+3.4%	
		Public works	111.8		+3.7%	
3/28	February	Manufacturing Industry Input-Output Price Index (2011=100)				
		Input price	98.4		-0.1%	
		Output price	99.8		0.0%	
3/26	February	Corporate Service Price Index (2010=100)				
		Overall index	105.1		+1.1%	
3/25	January	Industrial Activity Indices (2010=100)				
		All industries	105.5	-0.2%		
		Construction industry	110.8	+2.8%		
3/22	January	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicator	96.5	-1.0		
		Consensus	98.1	-2.5		
		Lagging indicator	104.8	+0.8		
February	National Consumer Price Index (2015=100)					
		Core	101.3	+0.1%	+0.7%	
3/18	January	Indices of Industrial Production (final figures, 2015=100)				
		Production capacity index	98.8		0.0%	
		Operation ratio index	99.4	-4.7%		
		Production	101.1	-3.4%		
		Shipments	99.8	-3.4%		
		Inventory	101.7	-1.4%		
January	Overall Construction Statistics					
		Private construction: Non-residential (billion JPY)	915.5		+0.9%	
		Public works (billion JPY)	2,475.0		-2.3%	
February	Trade Statistics (customs clearance level)					
		Trade balance (billion JPY)	339.0	+408.4	+352.9	
		Exports (billion JPY)	6,384.3	+6.7%	-1.2%	
		Imports (billion JPY)	6,453.0	+0.1%	-6.7%	
3/15	February	Public Works Advanced Securities Statistics				
		Contract amount (billion JPY)	739.0		+20.4%	
		Number of contracts	12,141		+10.2%	
3/14	January	Synthetic Consumption Index (2011=100)	104.1	+0.3%		
3/13	January	Tertiary Industry Activity Index (2010=100)	106.5	+0.4%		

	January	Private Core Machinery Orders (billion JPY)	822.3	-5.4%	
	January	Domestic Corporate Price Index (2010=100)			
		Corporate Price	101.1	+0.2%	+0.8%
		Export Price	94.4	+0.6%	-1.7%
		Import Price	95.9	+1.1%	-0.7%
3/12	January	Information Services Industry Sales (billion JPY)	834.4		+3.8%
3/8	January	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	277,001		+1.2%
		Total working hours	130.5		-2.4%
	January	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	296,345	+0.8%	+2.2%
		Real consumption expenditure		+0.7%	+2.0%
	January	Consumption Activity Index (2011=100)	104.9	+0.1%	
	January	Consumption Trend Index (2015=100)	102.0	+0.2%	
	February	Economy Watchers Survey			
		Current Conditions Diffusion Index	47.5	+1.9	
		Future Conditions Diffusion Index	48.9	-0.5	
	January	Balance of Payments			
		Current account (billion JPY)	600.4	+12.2%	+1.4%
		Exports (billion JPY)	5,816.9	-5.3%	-6.7%
		Imports (billion JPY)	6,781.8	-3.4%	-1.7%
3/7	January	Index of Business Conditions (preliminary, 2010=100)			
		Leading indicator	95.9	-1.3	
		Consensus	97.9	-2.7	
		Lagging indicator	103.7	-0.1	
3/4	February	Food Buffer Stock (billion JPY)	19.3		-5.6
3/1	February	New Car Sales (vehicles)	401,377		-0.1%
	January	Labor Force Survey			
		Total employment (millions)	66.65	-0.32	
		Total unemployment (millions)	1.72	+0.08	
		Unemployment rate (%)	2.5%	-0.1%pts	
	January	General Job Placement Situation			
		Job offers-to-applicants ratio	1.63	0.00%pts	
	February	Consumer Confidence Index (SA)	41.5	-0.4	